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Abusive Labor Practices Used by Organized
Crime in the Construction Industry
in New York City

Statement of
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Before the
Subcommittee on Environment, Energy
and Natural Resources
Committee on Government Operations
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before you today to discuss the results of our inquiries into abusive labor practices allegedly used by organized crime in the construction industry in New York City. As a part of our examination, we reviewed a recent study of the North River Wastewater Treatment Plant, currently under construction, which is located on the Hudson River in New York City. We also reviewed the recently published study entitled Corruption and Racketeering in the New York City Construction Industry, prepared by the New York State Organized Crime Task Force. A representative of that agency will discuss the results of the study later during this hearing.

We learned of the pervasive effects of organized crime on the construction industry in New York City from our discussions with representatives of the U.S. Department of Labor, Office of Labor Racketeering; the New York State Organized Crime Task Force; and the New York State Commission of Investigation. Representatives of some of these agencies will appear here today and provide you with considerable detail concerning such practices as bid-rigging, concrete price controls, and labor racketeering in the New York City construction industry today.

I would like to set the stage for today's hearing by discussing two studies of organized crime in the construction industry in New York City--one conducted by the New York State Commission of Investigation and the other by the President's Commission on Organized Crime. The results of these studies were published in 1985 and 1986 respectively. Where appropriate, I have added the results of discussions we have had with law enforcement officials currently involved in this issue.

The President's Commission on Organized Crime in its March 1986 report entitled The Edge: Organized Crime, Business, and Labor Unions revealed that organized crime, through its influence on the construction industry in New York City, significantly inflates the construction cost of public and private building projects. It creates a situation in which labor, business, and political figures view corruption as just "another cost of doing business." The report assembled substantial evidence that important unions in New York City have or had a documented relationship with organized crime.

According to law enforcement officials we interviewed, the construction industry funnels money from projects to organized crime through various forms of labor racketeering and dominance of construction contractors clubs. We were told that these clubs are alliances of contractors, labor leaders, and criminal figures. The clubs operate to assure that free-market

competition does not often occur in New York City's construction industry. Contractors in the clubs agree among themselves to rig bids for most major construction projects. The bids are inflated to provide tribute payments to organized crime figures and union officials whose participation and cooperation in the clubs are necessary for the clubs' effectiveness.

The law enforcement officials told us that, typically, after a contract-bid competition, the winning contractor immediately pays a percentage to the controlling La Cosa Nostra, or LCN, family. A designated criminal figure then selects the project's subcontractors and directs the contractor to purchase building materials, such as concrete, from certain suppliers. Often, the suppliers selected are controlled by organized crime. In return for these payments to the LCN figures and labor leaders associated with organized crime, the construction contractors clubs receive labor peace, permission to purchase and move building materials, and an outside enforcer in club disputes. The LCN enforces agreements made by the clubs. If a contractor attempts to break an agreement and compete against a rigged bid, or if a contractor from outside the club attempts to compete against the club, the LCN steps in on the club's behalf. In such instances, the competing contractor will find that labor problems will surface, subcontractors will suddenly become unavailable, and building materials will no longer be accessible.

Featherbedding is an example of an abusive labor practice used by members of organized crime to bleed money provided for construction into their coffers. In general, featherbedding involves the utilization of superfluous and unwanted labor, materials, and equipment. The New York State Commission of Investigation reported in 1985 that a common example of featherbedding practices in New York City is the employment of individuals in the capacities of master mechanic and working teamster foreman. Based on surveillance of a number of these employees in 1984, the Commission found that these employees often performed little or no productive work in exchange for relatively high and, in some instances, enormous salaries. A master mechanic ostensibly supervises all operating engineers and is required by labor contracts to be present at a job site when five or more operating engineers are used. Contractors in New York City have paid master mechanics when they were not at work. Moreover, in some instances, contractors have even paid master mechanics regular and overtime wages when they were not actually present at the work site. A working teamster foreman is supposed to perform the duties of a shop steward. However, shop stewards are already provided to teamsters at their truck terminals. The position of working teamster foreman is, therefore, redundant.

Most employers feel compelled to comply with demands by labor organizations. The rare employer who chooses to resist such attempts is soon faced with work slowdowns and stoppages that can result in significant financial losses if construction deadlines are not met.

Featherbedding had become such a widespread problem in New York City that the New York State Commission of Investigation conducted an extensive investigation and hearings on the matter. Their findings were published in the December 1985 report Investigation of the Building and Construction Industry: Report of Conclusions and Recommendations.

Some of the findings of these hearings are as follows:

- The payment of wages to master mechanics and working teamster foremen when these employees are not present on the job is "tribute, pure and simple, paid by developers and contractors to encourage, foster or guarantee the good will of union leaders."

- A master mechanic, George Morrison, who was employed at the World Financial Center, received approximately \$340,000 in salary during 1984. Investigators learned

that he was being paid for more than 24 hours in a single day. Other master mechanics received overtime pay without being required to be present on the job.

-- The average working teamster foreman earns an estimated annual salary of \$50,847 plus another \$23,179 in annual fringe benefits. Based on the fact that approximately 150 working teamster foremen are employed in the New City area, the estimated annual cost to the construction industry is \$11,103,900.

-- Twenty-four percent of the working teamster foremen reported employed during 1984 have been convicted of some criminal offense. More than 30 percent of these same working teamster foremen had some type of criminal record. Two working teamster foremen had histories of labor racketeering and extortion.

-- Surveillances on a number of working teamster foremen revealed that, as a general rule, working teamster foremen are paid for hours far in excess of the hours for which they are reported as present on the job.

-- During their assigned working hours, working teamster foremen were observed chauffeuring Teamsters Local 282

union officials, frequenting bars and social clubs, running personal errands, or simply staying at home.

Law enforcement officials told us that the position of working teamster foreman has become more prevalent in New York City than in other parts of the country due to the very nature of Teamsters Local 282. This union is solely responsible for the transportation and delivery of building and construction materials to every construction site in the city. This allows the union to control the progress of work at construction sites.

Another factor that contributes to the power of this union is the considerable influence of organized crime. According to an investigator of the U.S. Department of Labor, Office of Labor Racketeering, the history of Teamsters Local 282 evidences a pattern of corruption engaged in by its officers and agents. Former Teamsters Local 282 President John Cody was a close personal associate of deceased La Cosa Nostra figure Carlo Gambino and was convicted of labor racketeering and extortion. Cody is also a known associate of LCN figure Ettore Zappi. Former Local 282 business agent Harry Gross, who was a working teamster foreman, was indicted for labor racketeering and extortion. The corpse of Cody's former chauffeur Bruce Kay, who was also a working teamster foreman, was found stuffed in a car trunk at La Guardia Airport during the period he was awaiting trial on a murder indictment.

Teamsters Local 282 is currently headed by President Robert Sasso, who was secretary/treasurer during Cody's tenure as president. According to the Department of Labor investigator, Sasso is reported to be associated with various organized crime elements, including the missing and presumed deceased Robert Di Bernardo of the Gambino crime family and Anthony "Fat Tony" Salerno, the boss of the Genovese crime family.

Mr. Chairman, you also asked us to look specifically into abusive labor practices at the North River Wastewater Treatment Plant, a project funded under the Environmental Protection Agency's, EPA, construction grants program. The construction grants program awards local communities grants to plan, design, and build wastewater treatment facilities, which are needed to control water pollution. This program is carried out under the provisions of the Federal Water Pollution Control Act, as amended (33 U.S.C. 1251 et seq.).

In 1977, the Act was amended to provide for an increased state role in managing the construction grants program. Delegation agreements can be entered into between an EPA region and a state. EPA is responsible for ensuring that federal requirements are met by all grantees. The grantees are responsible for managing their projects to ensure their successful completion.

According to the delegation agreement between EPA and New York State, the state manages the construction grants program. Key decisions involving the award of construction contracts are to be made by New York City and New York State officials acting for EPA.

An EPA headquarters official told us that under the construction grants program, EPA relies on the competitive process to obtain reasonable prices for constructing wastewater treatment plants.

The North River Wastewater Treatment Plant is currently under construction. Approximately 75 percent of the \$1.1 billion cost is to be federally funded as part of EPA's construction grant. In reviewing studies conducted at North River, we identified several of the indicia of abusive labor practices. For example, at least one of the union locals associated with the North River construction project has a documented relationship with the La Cosa Nostra families. In addition, one master mechanic and four working teamster foremen were employed at the site in 1984 and 1985. These employees were paid \$513,941 in salary and overtime during 1984 and part of 1985. Finally, Mr. Chairman, one of the working teamster foremen employed at North River was surveilled by an investigator of the New York State Commission of Investigation in 1984 and was discovered not to be

at the work site on several occasions for which he was paid. However, none of these individuals had prior criminal records or were known to be associated with any identified organized crime figures.

Abusive labor practices can affect all construction projects, including those funded by the federal government. In such cases, the resulting increased building costs are borne directly by the taxpayer.

Mr. Chairman, the Subcommittee's efforts in attempting to find solutions to the abuses I have discussed today are vitally important. Witnesses will appear before you today to propose ways in which the construction industry can successfully operate without the interference and control of organized crime.

This concludes my statement. Thank you for allowing us to inform you of the problems of bid-rigging, featherbedding, and organized crime in the construction industry in New York City. I will be pleased to respond to any questions you may have.